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Before the  
Federal Communications Commission  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of:

Policy and Rules Concerning the  
Interstate, Interexchange, Marketplace

Implementation of Section 254(g) of the  
Communications Act of 1934, as Amended

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) CC Docket No. 96-61  
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To: The Commission

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**COMMENTS OF THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY ON  
PETITION FOR RECONSIDERATION BY AT&T**

The Southern New England Telephone Company ("SNET") files these comments on AT&T's petition requesting reconsideration of the FCC's order in this proceeding.<sup>1/</sup> In its petition, AT&T seeks authority to provide interstate toll service at a geographically deaveraged price to the exchange service customers of any LEC offering toll service to its exchange customers. AT&T also requests permission to provide geographically deaveraged promotional toll rates for two years rather than for a maximum of 90 days as the order specifies.

As a matter of competition policy alone, SNET believes that it is desirable to provide *all* carriers with substantial flexibility to provide all telecommunications services. But the FCC has never previously considered competition policy alone in deciding whether

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<sup>1/</sup> Order, 61 Fed. Reg. 51941-42 (Oct. 4, 1996).

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to permit geographic toll rate deaveraging in a particular situation. Instead, the agency has balanced the competitive benefit against the risk that geographic rate deaveraging in the situation at issue would result in residential toll price hikes in areas where it costs most to provide toll service, and it has authorized rate deaveraging only where it is unlikely to produce toll price hikes in high cost areas.

SNET takes no position on whether AT&T should be authorized to geographically deaverage toll rates in the two situations where it desires such authority, but SNET urges the FCC to repeal the mandatory geographic toll rate averaging requirement if the agency permits rate deaveraging in either situation. This is because toll rate deaveraging in either of these two situations inevitably would produce a toll price increase for residential customers in high cost areas as shown below.

Even AT&T admits implicitly that geographically deaveraging toll rates in the areas where it competes with an incumbent LEC would result in a toll price increase in areas where it costs most to provide toll service. AT&T makes this admission by justifying rate deaveraging in this circumstance on the ground that the company's "aggregate" revenues would not increase rather than on the ground that toll prices in high cost areas would not rise.<sup>2/</sup> By

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<sup>2/</sup> AT&T Pet. for Recon. at 7 ("the . . . exception that AT&T seeks here would only lead to lower, not higher, *aggregate* rates, because the relief requested would only permit national carriers to provide geographically specific rates that are lower than their nationwide rates") (emphasis added).

seeking to justify rate deaveraging on that basis in this particular situation, AT&T implicitly admits that the revenue losses which would result from toll rate reductions in areas where it competes with LECs would be offset by rate hikes in rural and other high cost areas.<sup>3/</sup>

A simple illustration confirms that AT&T's admission is well placed. If AT&T reduced toll rates by 25 percent for the 80 percent of people who live in areas where it costs least to provide toll service, the company's total revenues might decline unless it also *doubled* the toll rates of people living in the remaining areas. This is because a 25 percent toll rate reduction for 80 percent of the population might decrease AT&T's total revenues by as much as 20 percent (*i.e.*,  $80\% \times 25\% = 20\%$ ).<sup>4/</sup> In order to prevent a 20 percent reduction in revenues, AT&T might then need to double the price of toll service for the remaining 20 percent of the population since people in these areas contributed 20 percent of total

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<sup>3/</sup> AT&T's claim that SNET sought certain regulatory relief as a "rural" LEC several months ago when it filed a petition seeking such relief is false. *Id.* at 4 n.3. Rather than seeking regulatory relief in the subject petition by claiming to be a "rural" carrier, SNET instead filed its petition pursuant to Section 251(f)(2) of the 1996 Telecommunications Act, a provision entitling any LEC serving fewer than two percent of the nation's subscriber lines to request such relief regardless of whether the LEC serves rural or non-rural areas. SNET indisputably qualified to file the petition under Section 251(f)(2) since it serves just 1.3 percent of the nation's subscriber lines.

<sup>4/</sup> This analysis assumes that each geographic area presently contributes to AT&T's aggregate toll revenues in direct proportion to that area's population.

revenues prior to the price reduction but would need to contribute 40 percent of revenues after the price reduction.

AT&T also does not dispute the order's finding that 24-month-long geographically specific promotional rates could result in toll price increases in high cost areas.<sup>5/</sup> Instead, AT&T seeks authority to provide two-year-long geographically specific promotional rates on the ground that the order's 90-day limit is more restrictive than the Commission's former policy.<sup>6/</sup> In fact, SNET is unaware of any order in which the FCC *ever* held that AT&T could provide promotional rates for residential toll service in a discrete geographic area for more than 90 days, and AT&T's reference to several specific promotions lasting more than 90 days (AT&T Pet. for Recon. at 9) does not indicate otherwise since each became effective automatically without a ruling by the Commission on lawfulness. Provisions of a tariff transmittal which become effective under these circumstances have no precedential value.<sup>2/</sup>

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<sup>5/</sup> Order at ¶29 (holding that allowing such long term geographically specific promotional rates could "undermine our geographic rate averaging requirement").

<sup>6/</sup> AT&T Pet. for Recon. at 9 (Before the Commission's order, "AT&T and other carriers were routinely permitted to offer geographically targeted promotional discounts for periods of up to 24 months").

<sup>2/</sup> See *Implementation of Sec. 402(b)(1)(A) of the Telecommunications Act of 1996, Notice of Proposed Rulemaking*, FCC 96-367 at ¶8 (rel. Sept. 6, 1996). Four of the promotions which AT&T cites also did not create a risk of residential toll rate hikes in high cost areas since they established promotional rates on a nationwide basis. Two others did not create a risk of residential toll rate increases in high cost areas since they established promotional rates for anyone obtaining local telephone service from one of the largest 27 LECs, which together serve about 90 percent of people living in high cost areas.

CONCLUSION

The FCC should permit toll rate deaveraging in the two situations in which AT&T seeks such authority only if it repeals the geographic rate averaging requirement since geographically deaveraging rates in either circumstance will lead to the very toll price hikes in high cost areas that the rate averaging requirement is supposed to prevent.

Respectfully submitted,

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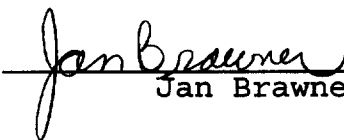
Its Attorneys

October 21, 1996

**CERTIFICATE OF SERVICE**

I certify that I placed a copy of the attached "Comments of The Southern New England Telephone Company on Petition for Reconsideration by AT&T" in the first class U.S. mail system on Monday, October 21, 1996, addressed to the following:

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